

C. Private Companies

- 472 This category includes private traders
438 and individual dealers who, according to govern-
ment policy, are led gradually along the road
to state-capitalism. As the result of the
growing monopoly of state-owned companies,
the private wholesale dealers will be squeezed
out of business or transformed into retail
traders acting as agents of the state trading
companies. All retail traders must undergo
socialistic transformation. According to the
most recently available report, about one-third
of Shanghai's retail traders have been "trans-
formed" under state capitalism.³⁴ For example,
the Wing On Company, the "Marshall Field of
Shanghai," has been forced to maintain its
business at the lowest subsistence level.
According to the report of Kuo Lin-shuang,
general manager, the company's business has
dropped sharply since 1950. The total volume
of sales decreased 52.87 per cent in 1954
from the previous year, and at one point during
1954 income was not sufficient to pay employees'
wages³⁵ By the beginning of 1955, proper
adjustments were made and a petition had been

34. Ta-kung Daily, Hong Kong, July 15, 1955.

35. Industry and Commerce, Peking, June
10, 1955, No. 6, p. 17.

472 submitted to the Central People's Government
438 asking that the Wing On Company be made an agent of the state trading companies. In March 1955, the petition was approved. The Wing On Company signed contracts to sell forty-eight classes of commodities, and agreed to sell fourteen additional kinds of commodities on a commission basis on behalf of the state companies. Under these arrangements the business showed considerable progress in April 1955, with a sales increase of 98 per cent over the same period in 1954.³⁶

In the campaign for the socialistic transformation of domestic trade, East China showed remarkable progress. Among the thirty-nine principal cities of the region, about 5,928 wholesale dealers were chosen for transformation in 1954. By November 1954, some 4,573 dealers (76 per cent) had been transformed, and most of the employees of these wholesale firms were reassigned to other jobs after a few months of thorough training.³⁷ Over 90 per cent of the retailers had been transformed.³⁸

36. Ibid., p. 18.

37. Ibid., Jan. 10, 1955, No. 1, p. 36.

38. Ibid.

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472 The Communist authorities have adopted
438 several types of "socialist transformation":
(1) the agency, (2) purchase or sale on
behalf of state trading companies or supply and
marketing co-operatives, (3) combined operation
of a few similar retail traders, with separate
accounting and finance, and (4) co-operative
operation and management. In most of the
rural areas throughout the East China provinces,
retail traders and peddlers were transformed
under these terms.³⁹ The income of an
ordinary retailer remained low and was hardly
sufficient to maintain a family on the lowest
subsistence level. For example, in April 1955
in Chen-hai, Chekiang Province, the average
per capita income⁴⁰ of the retail dealer in
bamboo-products was only ¥16 (US\$ 6.4).
Private traders, unable to subsist, will change
their profession sooner or later.

D. State "Capitalism"

475 Under state "capitalism," the state
438 trading companies or the supply and marketing
co-operatives designate private commercial

39. Ibid., May 10, 1955, No. 5, p. 23.

40. Tsu-kuo [China Weekly], Hong Kong,
Aug. 22, 1955, No. 138, p. 12; Ta-kung Daily,
Tientsin, June 21, 1955.

Annex "A," Subparagraph 3f, Economic Background
**SOCIALIST TRANSFORMATION OF
PRIVATE INDUSTRY AND COMMERCE
IN EAST CHINA**

472 The socialist transformation of private in-
475 dustry, i.e., its gradual nationalization, was
accomplished both slowly and cautiously in East
China during the early years of the Communist
regime. Extreme cautiousness was dictated by
the following conditions, which could help or
hinder the successful completion of the Communist
campaign.

1. Three of China's largest industrial cities, Shanghai, Tsingtao, and Wuhsi, are in East China; Shanghai particularly has been the stronghold of private enterprise. At the time Shanghai fell, over half of the 2.3 million cotton spindles in Shanghai were privately owned; private ownership accounted for an even larger proportion of private enterprise in dyeing and weaving, machinery and chemical industries. Shanghai, the site of more than half the factories in China, also served to train technicians, managers, and skilled workers who later sought jobs in industry in other areas.

2. The accumulation of capital in East China's industry could provide a foundation for China's industrialization.

3. Lack of capital and the lack of managers and skilled technicians among the party cadres has often proved a handicap to the program of the Communist government both in China and in the Soviet Union.

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475 The conflict in Korea further slowed the pace of socialization for the duration, because the Communist government discovered its immediate need for the production of private industry. But the cautious policy with which the Communists extend state control over industry was accompanied by a deliberate two-way policy of infiltration: government orders were filled by private industry, and the state purchased and marketed the products of private industry. By the end of 1953, an estimated 58 per cent of the output of Shanghai's private industry was either produced for the state or marketed by it. The Communists regarded the increasing dependence of private industry on the state as a preliminary step to state capitalism.

Introduction of Joint State-Private Enterprises

After the beginning of the First Five-Year Plan (October 1953) the government began to exert pressure by converting private enterprises into "joint state-private enterprises." According to the interim regulations governing joint state-private enterprises, issued in September 1954, the legal rights of private shareholders were to be protected; profits after taxes were to be allocated for reserves, workers' benefits and bonuses, interest, and shareholders' dividends; and shareholders' dividends plus remuneration for top management were to be equal to one-fourth of the

1. Ta-kung Pao [Ta-kung Daily], Tientsin, June 12, 1953.

472 gross profits. Management was shared by govern-
475 ment and private shareholders; workers also shared
in the administration.

Not all private enterprises were forced to be-
come joint state-private enterprises. All in-
dustries had to go through the procedure of appli-
cation and investigation before formal approval
was granted -- which permitted the government
to choose only those companies it wished to trans-
form, forcing others to declare bankruptcy or
merge with larger concerns. Transformation had
to be "voluntary," industry has to be "beneficial"
to the national economy, and the company had to
be ready for reorganization and for further im-
provements.

Thus, by avoiding the semblance of straight
nationalization, the Communists have tried to
maintain the co-operation of private industrialists.
It is possible that the Communists expect the in-
dustrialists to exhaust their resources by invest-
ing all their available funds, and at the same time
treat their competitors ruthlessly in order to
maintain their own margin of economic security.

Socialization by Regions and by Industries

Shanghai. In Shanghai, site of the largest
number of factories, the Communists first moved
against key industries such as textiles, metallurgy,
machinery, and chemicals; and they first picked
moderate-sized concerns rather than large ones.
Four well-known companies, the T'ien-yüan
Electrical Chemical Works, the T'ien-li Synthetic

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472 Nitrogen Product Company (owned by Wu Yün-ch'u,
475 a promoter of the chemical industry in China),
the Shanghai Cement Plant (owned by O. S. Liu,
prominent Shanghai entrepreneur), and the Nan-
yang Tobacco Company (owned by overseas Chinese
and managed by Chien Yü-chieh, first overseas
Chinese to return to China to promote industry),
became joint state-private enterprises as early
as 1950. Perhaps these companies did not suspect
that they might be used as decoys when they
accepted government participation, believing that
the Communists sincerely solicited their co-opera-
tion in the development of China's industry.

The following large businesses became joint
state-private enterprises in the period 1953 to
August 1955:

- (a) all the 50 cotton mills in Shanghai, including
Shen-hsin Textiles and () Textiles,
largest and second-largest textile companies in
Shanghai, which accounted for one-fourth of the
cotton textile equipment in China;
- (b) dozens of metallurgical and machine plants,
including Ta-lung Machinery Works and T'ai-li
Iron Works, two of Shanghai's largest;
- (c) about one dozen chemical works, including the
Ta-chung-hua Rubber Manufacturing Plant (largest
in China), and the Kofa (K'o-fa) Pharmacy and
the International Dispensary (the two oldest
pharmaceutical and cosmetics manufacturers);
- (d) about six electrical-equipment manufacturing
plants, including the Hua-ch'eng Electrical
Equipment Manufacturing Plant and the Hsin-an
Electrical Equipment Manufacturing Works.

472 More than two-hundred factories were approved
475 for transformation in July and August 1955, including many smaller manufacturing industries. It is expected that the total number to be transformed will be considerably greater.

By November 1955, about 45 per cent of the total output in value of Shanghai's private industry has become joint state-private enterprises.²

Enterprises which the Communists consider less essential, owned by capitalists with other properties in China and with funds abroad as well as by overseas Chinese, are subject to other tactics in an effort to hurry their bankruptcy. They are forced to keep operating with undiminished payrolls, despite the heavy financial burden this entails. The Shanghai Wool Textile Mill, for example, owned by a Chinese now residing in California, has been operating at losses exceeding US 1.5 million for the last four years. Two hundred idle employees remain on the payroll. The plant is not allowed to close or to fire workers. The owner has other properties in Shanghai and probably has funds in the United States. When all his resources are exhausted, he may "voluntarily" ask the government to take over his factory.

Foreign-owned enterprises, if profitable, must meet the demands of the workers for elaborate benefits; they must also pay high prices in order to buy sufficient raw materials to maintain production. High taxes and the impossibility of

2. New China News Agency, Shanghai, November 21, 1955.

472 remitting profits abroad add to the woes of "profit-
475 able" firms; if unprofitable, plants are kept in operation with funds from abroad until, at last, they find it necessary to surrender to the government.

Other Districts. In other parts of East China, as many private enterprises as possible were converted into joint state-private enterprises. In Kiangsu,³ 261 industries including three big enterprises near Nanking -- the Yung-li Chemical Industries, the Chiang-nan Cement Plant, and the China Cement Plant -- have been transformed; and 330 joint enterprises in Tsingtao and Tsinan, Shantung Province, were in operation by the end of 1954. Most of these were small in assets and in size, with the exception of one cotton mill in Tsingtao and another in Tsinan.

A total of 338 industries in Chekiang,⁴ from the Hangchow Power Plant, the largest, to the smallest, the handcraft scissor-making industry, have been transformed. All of the few enterprises in Fukien and Anhwei have become joint state-private concerns.

Elimination of Private Commerce

Ultimate elimination of private commerce is part of the Communists' plan for a socialist economy. This partial goal has been achieved by the gradual ousting of traders, following the establishment of a government monopoly over all foreign and most internal trade.

3. Hsiang-kang Shih-pao [Hong Kong Times], Dec. 6, 1955.

4. Ibid.

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- 472 Import-export firms were the first victims.
475 Foreign trade was first controlled and then monopolized by the government. Private firms could do no more business, but were not allowed to close, and were continually pressed to surrender their foreign funds. Not until recently was a group of 300 Shanghai firms allowed to close, under a "collective reform" movement.

Following the establishment of the government import monopoly, wholesalers of imported commodities were forced to become agents of state trading organizations. The same fate befell former traders of "essential commodities;" 24 categories of food, edible oil, and cotton cloth were placed under unified state purchasing and marketing. The traders' capital was forcibly transferred to industry in the name of "government guidance and relief." Through the latter part of 1955, there were 621 trading firms in Shanghai which had been so affected; the capital of 157 of these, amounting to 23 million yuan, was transferred to Anhwei, Chekiang, and Hunan for use in manufacturing, animal husbandry, hotels, etc.

Of the four largest Shanghai stores, the Wing On Company, the Hsin-hsin Company, the Sincere (Hsien-shih) Company, and the Tai Sun (Ta-hsin) Company, only the first survived until November 1955, chiefly because the owners had real estate and cotton mills in Shanghai which provided funds to cover the store's deficits. The store's sales were confined to domestic products, mostly supplied by national trading companies. Heavy taxes, high wages, and lack of profit closed the other three stores shortly after the Communist took

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472 over Shanghai; their business premises were con-
475 fiscated for defaulted taxes.

According to Communist statements, half of all retail shops in Shanghai (about 21,000) were eliminated, and 17,467 peddlers and stall-keepers were made salesmen for governmental trading organizations.⁵

Reactions of Industrialists and Shareholders

The Communists have used two tactics to induce entrepreneurs to co-operate with the government and to mitigate shareholders' chagrin because of their loss of income. One is to offer distinguished positions to prominent industrialists; the other is to promise 8 per cent dividends to shareholders.

The three industrialists in Shanghai who first accepted government participation in their enterprises, O. S. Liu (general manager of the Shanghai Cement Company, the Great China Match Manufacturing Company, and the Chang Wah Wool Company); WuYün-chu (general manager of the T'ien-yüan Electro-chemical Works and the T'ien-li Synthetic Nitrogen Products Company), and Chien Yü-chieh (general manager of the Nanyang Tobacco Company), were appointed members of the National Committee of Political Consultative Conference.

N. Z. Yung (of Shen-hsin Cotton Textiles) and Kuo Ti-huo (David Kwok of Wing On Cotton Textiles) were given similar positions. In Kiangsu Province Hou Te-pang (chairman of the board of Yung-li Chemical Industries of Nanking), Chang Ching-li (of Ta-sheng Cotton Mill, Nan-t'ung) and Yung Te-sheng (of Shen-hsin Cotton Mills, Wu-hsi)

5. Hsing-tao Jih-pao [Hsing Tao Daily]
Hong Kong, June 6, 1955.

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472 were appointed members of the National Committee
475 of Political Consultative Conference. Liu Kuo-chün
(Ta-ch'eng Cotton Mill, Ch'ang-chou) was appointed
a member of the Kiangsu Provincial People's
Council.

These industrial leaders had hoped that by accepting government positions they might be able to maintain independence of management under the general plan mapped out by the government; but the experience of "joint enterprise," as the Communists interpret it, has disillusioned them.

Shareholders, too, have seen that the government's promise of an 8 per cent dividend is a ruse. Whenever a shareholder's total dividends reach a fair amount he must buy non-negotiable government bonds; this is not much different from straight confiscation.